

PARI-MUTUEL WAGERING

STATE OF NEVADA
GAMING CONTROL BOARD
GAMING AUDIT PROCEDURES MANUAL
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TERMINOLOGY (Regulations 26A and 26B)

The following terminology is applicable to pari-mutuel wagering:

Breakage	The rounding of a payout on a winning pari-mutuel wager, not to exceed ten cents; or Those deficiencies arising from payouts made pursuant to Regulation 26A.040(6) ; or Those deficiencies arising from the payment of a guaranteed payout pursuant to Regulation 26A.040(7) ; or The odd cents over a multiple of ten cents arising from the computation of odds and payouts on amounts wagered on a race which is part of an interstate common pari-mutuel pool.
Commission on wagers	The amount retained and not returned to patrons by a pari-mutuel book from the total amount of off-track pari-mutuel wagers.
Common pari-mutuel pool	Means a pari-mutuel wagering pool consisting of the off-track pari-mutuel wagers placed at two or more pari-mutuel books.
Interstate common pari-mutuel pool	A pari-mutuel pool consisting of the pari-mutuel wagers placed at a track, its intrastate betting locations, other jurisdictions and the off-track pari-mutuel wagers placed and accepted at Nevada pari-mutuel books.
Intrastate common pari-mutuel pool	A pari-mutuel wagering pool operated by a systems operator consisting solely of the wagers placed and accepted at two or more Nevada pari-mutuel books on races at tracks.
Live audio visual signal	The audio and visual transmission of a race, or series of races, as it occurs at a track. This signal is not to be used by a pari-mutuel book to determine winners of or payoffs on nonpari-mutuel race wagers – this is accomplished via the off-track pari-mutuel system.
Manual merge	The process used in the event of a systems or communications failure by which the systems operator transmits to the track through telephone, telecopy, cellular, or other means of communication, the pari-mutuel books' wagering information and the process by which the track includes the off-track pari-mutuel wagers in the interstate common pari-mutuel pool in such event. This process is necessary since the betting ticket would be issued to the customer but the wager would not have been communicated to the track.

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Nonpari-mutuel race wager	A race wager other than one offered to be included in an interstate or intrastate common pari-mutuel pool.
Off-track pari-mutuel race system	A computerized system or component of a system that is used to transmit wagering data between a Nevada book and an out-of-state race track. The information from all Nevada books is sent to a single systems operator and forwarded by the operator to the out-of-state track.
Off-track pari-mutuel sports system	A computerized system or component of a system that is used to receive wagering information from and transmit pool data to a pari-mutuel sports book.
Off-track pari-mutuel wager	A wager placed by a patron and accepted by a pari-mutuel book on a race or races/sporting event offered as part of an interstate common pari-mutuel pool whether or not the wager is actually included in the total amount of the interstate common pari-mutuel pool.
Pari-mutuel book	A race book/sports book that has received a license to accept off-track pari-mutuel wagers.
Pari-mutuel rebate or discount	Promotional activity whereby the house <i>rebates</i> (pays) money to a patron based on the patron's pari-mutuel wagering activity. For example, the licensee may give certain patrons a 10% cash-back rebate on the patron's pari-mutuel wagers. This type of promotional activity is not deductible from either race book or pari-mutuel book revenue. Additionally, NRS 464.075 prohibits altering the value of wagers for patrons.
Pool data	Data regarding the results, payoffs, odds or payoff prices, and the aggregate amount of off-track pari-mutuel sports wagers accepted on each sporting event by all pari-mutuel sports books.
Post time	For purposes of off-track pari-mutuel wagering, Regulation 26A.020 defines this as when the last entrant enters the gate, the starting gate car begins to move or such other time as designated by the chairman. Regulation 26B.020(10) defines post time for pari-mutuel sports wagering as five minutes before the scheduled start of a sporting event or such other time as designated by the chairman.
Purged tickets	Unclaimed winning tickets which are removed from the pari-mutuel system. Regulation 26A.020(5) requires manual adjustments to include these in gaming revenue since they were never actually paid, even though the licensee received money from the track to make the payment.

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Systems operator or operator of a system	A person engaged in providing the off-track pari-mutuel system or services directly related to the reconciliation of the interstate or intrastate common pari-mutuel pool and transfers of funds between the tracks and the pari-mutuel books, or among the pari-mutuel books.
Takeout	See Commission on wagers.
Track	An out-of-state facility licensed to operate horse or other racing where pari-mutuel wagering on races is conducted, or a person licensed in another jurisdiction to conduct pari-mutuel wagering on such races. Where applicable, the term also includes a person or governmental agency from outside this state that operates a track, holds a track's rights to off-track pari-mutuel wagering or shares in its revenues. The term also includes an association of tracks.
Wagering data	The information regarding results, actual payouts, and the amount of pari-mutuel and off-track pari-mutuel wagers accepted for each race or group of races/sporting event in an interstate or intrastate common pari-mutuel pool.
Wagering information	The amount of off-track pari-mutuel wagers accepted for each race or group of races by a pari-mutuel book.

GENERAL

A pari-mutuel system of wagering is one in which wagers with respect to the outcome of a race or sporting event are placed in a wagering pool conducted by a person licensed or otherwise permitted to do so under state law. The bettors are wagering against each other and not against the operator. The operator determines payoffs in a manner that allows him to retain a fixed percentage of total wagers as a commission similar to the rake on a card game. Thus, the operator will not incur any losses. Note that in nonpari-mutuel race book operations the licensee may pay track odds, but the wagers are against the licensee, not other patrons. Accordingly, licensees would be susceptible to material losses, particularly if unlawful activity (i.e., race fixing) at the track resulted in high payouts on supposed "long shots". In order to take advantage of the lower risk associated with pari-mutuel wagering, several operators of licensed race books formed the Nevada Pari-Mutuel Association to take the necessary steps to permit Nevada race book operators to participate in pari-mutuel wagering pools at various tracks across the country.

A book participating in pari-mutuel wagering must be licensed pursuant to **NRS 464** and must comply with **NRS 463** and all other regulations to the extent they do not conflict with **Chapter 464. Regulation 26A** establishes the specific procedures pertaining to the operation of interstate and intrastate pari-mutuel race wagering. **Regulation 26B** relates to intrastate pari-mutuel sports wagering.

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There are certain terms for pari-mutuel race betting that have the same meaning as in-house race betting but are called something different. The following list of comparable terms should aid the auditor when performing pari-mutuel testing:

<u>In-House Race Book Term</u>	<u>Pari-mutuel Book Term</u>
Write	Sales
Pay	Cash
Void	Cancel
Unpaid Winner	Out
Write Transaction Report	Transaction Search Report
Exception Report	Exception History Report (This report is much more condensed than the race and sports exception report.)
Unpaid Winners Report	Outsbook Report

REVENUE COMPUTATIONS

Regulation 26A.020(5) defines gross revenue for pari-mutuel race wagering as the amount of the commission on wagers received by the licensee, plus positive breakage and the dollar amount of winning tickets that remain unpaid pursuant to **Regulation 26A.040(12)**, less negative breakage and the amount paid to a track for the right to be part of an interstate or intrastate common pari-mutuel pool (“track fee”). This is equivalent to commission + positive breakage + track fee refunds + purged tickets - negative breakage - track fees - track fee additional payments.

For pari-mutuel sports wagering, **Regulation 26B.200** defines gross revenue as the total commission on wagers, plus any pool amounts not won by patrons and retained by the pari-mutuel sports book, plus the face amount of unpaid winning tickets, plus breakage, less any rights fee paid by the pari-mutuel sports book, less any commission on wagers returned to the patron by the pari-mutuel sports book pursuant to **Regulation 26B.040(5) and (6)**.

In calculating pari-mutuel revenue, **NRS 464.045(3)** states that “**a licensee shall not deduct from gross revenue any promotional allowances, including, without limitation, prizes, payments, premiums, drawings, discounts, rebates, bonus payouts, benefits or tickets that are redeemable for money or merchandise.**”

Oftentimes, licensees improperly calculate pari-mutuel revenue by failing to deduct weekly track fees and additional track payments and by failing to add purged tickets and track fee refunds back to revenue. Below is a description of each of these elements:

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Track Fees – The amount of track fees that is deductible is the amount shown at the bottom of the weekly track fee report received from the systems operator. The licensee should have an account established in the general ledger for weekly track fees. It is important to ensure that the weekly track fees are not deducted twice for weeks that carry over from one month to the next. Licensees have the option of deducting the fees in either month or to allocate the fees between the two months, as long as no more than the total of seven days of track fees are deducted from pari-mutuel revenue.

Example: A weekly track fee report containing the days from September 28 through October 4 has deductible track fees of \$700. The licensee may deduct the \$700 in September, in October, or allocate \$300 to be deducted in September and \$400 to be deducted in October. Another allocation process may be used, as long as no more than a total of \$700 is deducted from revenue.

It is important to note that although track fees are deductible, operator fees, which are fees charged by the systems operator, are not deductible. Auditors should be aware of this difference and ensure that the fees are properly handled.

Additional track fees/track fee refunds – Occasionally, additional track fees are due or a refund is given as a result of a re-negotiation of the contract between the books and the track or an error in the original calculation of weekly track fees. An adjustment must be made to pari-mutuel gross revenue to properly account for the additional amount(s) paid or refunded.

Purged Tickets – Pari-mutuel books shall allow patrons to cash outstanding off-track pari-mutuel tickets for 120 days from the date of purchase or 30 days after the close of the racing meet, whichever shall first occur. After that, unclaimed winning tickets are purged by the systems operator from the pari-mutuel system. As such, the licensee is relieved of the liability that was accrued to pay the tickets. Thus, this liability now becomes revenue for the licensee, and a manual adjustment to pari-mutuel gross revenue in the amount of the purged tickets is required by **Regulation 26A.040(12)**.